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Integrated annual report on results for 2015 and midterm review of the strategic framework, 2014-2017, of the United Nations Capital Development Fund

Summary

This report presents an overview of progress achieved over the first two years of implementation of the UNCDF strategic framework, 2014-2017, with highlights of UNCDF results in 2015. It addresses UNCDF interventions for the second half of the strategic framework period, including how UNCDF supports implementation of the Addis Ababa Action Agenda, 'Agenda 2030', and the Istanbul Programme of Action, 2011-2020, and proposes revisions to the integrated results and resources matrix (annex 2).

UNCDF largely achieved its planned results in the first half of the strategic framework period, though in fewer of the least developed countries than foreseen. The ability to achieve programme results was sustained by regular resources ('core') contributions from donors with an appetite for risk and innovation, and by a strong other resources ('non-core') base. But the deterioration in core funding (resulting in a projected shortfall of $10 million to $15 million per year by end 2016, against the $25 million per year target in the strategic framework) negatively affected the innovation and replication space of UNCDF at the country level, with programme presence down to 31 countries (and risking further reduction) against the 40 projected in the strategic framework.

Elements of a decision

The Executive Board may wish to take note of UNCDF performance for the period, welcome the revised integrated results and resources matrix, recognize the four-window funding architecture and the critical role of core resources, and recommit to supporting UNCDF work over the next two years, including through fully funding core resource requirements.

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1. Integrated results and resources matrix
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I. Introduction

1. An integrated exercise comprising annual results reporting for 2015 and a midterm review of the strategic framework, 2014-2017, was conducted between November 2015 and March 2016. This report highlights the results achieved for 2015 and assesses overall UNCDF performance to date against the framework. The exercise also yielded proposed revisions to the integrated results and resources matrix, reflecting lessons learned from the first two years of implementation (annex 2); and informed planned UNCDF actions for the remainder of the strategic framework period to ensure achievement of intended results, including how the organization supports implementation of the Addis Ababa Action Agenda, Agenda 2030, and the Istanbul Programme of Action, 2011-2020.

2. The review was conducted using internal and external sources. It included a thorough desk review, including evaluations and audit reports; programme and project monitoring and results reports; and financial data. Primary data were used to measure progress against the integrated results and resources matrix (annex 1). The findings were triangulated against a range of other data sources, including a partner perception survey (annex 3).

II. UNCDF and the changing context

A. Contextual analysis

3. In 2014, the average growth rate of least developed countries as a group, at 5.5 per cent, surpassed that of other developing countries. Twelve achieved growth rates of at least 7 per cent, in line with Istanbul Programme of Action objectives. However, unfavourable external conditions, including the Ebola outbreak in West Africa, contributed to an overall deterioration in their economic performance compared to a post-economic-crisis peak in 2012. Further, there is as yet too little economic diversification in most of the least developed countries, with investment flows often concentrated in few countries and sectors. Volatility and shocks – related to conflict, climate change, environmental degradation, and commodity price swings – could undo development gains and affect graduation ambitions in some of the least developed countries.

4. UNCDF finance models that unlock public and private resources, especially at the domestic level, are relevant to the Addis Ababa Action Agenda and the 2030 Agenda. Both stress that international public finance remains central to achieving the sustainable development goals. Still, there is a need for multiple sources of finance – especially from the private sector – which must work together effectively.

5. Around two billion adults, over half of whom are women, remain excluded from formal financial services. This highlights the need for expanding financial inclusion, with its demonstrated effects of reducing poverty; empowering women; supporting small and medium enterprises; helping build stable financial systems; and mobilizing domestic resources through national savings. Also relevant to the UNCDF mandate is the growing recognition of the need to empower local authorities. More than two-thirds of the people in least developed countries live in rural areas. Continuing population growth and urbanization are projected to add 2.5 billion people to the global urban population by 2050, with nearly 90 per cent of the increase concentrated in Asia and Africa. Growing pressure on local authorities, especially in secondary cities, peri-urban and rural areas, increases their need to access and mobilize finance to build local infrastructure and services for local economic development.

6. The year 2016 marks the start of sustainable development goals implementation. It is the midpoint of the Istanbul Programme of Action. UNCDF leverages its decades-long experience in local development finance and financial inclusion to address a range of development challenges in an integrated fashion, reaching the furthest behind first. By strengthening how finance works in the 'last mile' at the subnational, peri-urban, household, and small-enterprise levels, UNCDF contributes to goal 1, eradicating poverty, and goal 17, on the means of implementation. By identifying those market segments and sectors where innovative financing models can have transformational impact and address unequal access, UNCDF also contributes to several of the

other goals. UNCDF models aim to achieve high leverage ($1-$10 minimum) in domestic resource mobilization to reach the 'last mile'.

7. Ensuring that growth is equitable and sustainable, leaving no one behind, will be a hallmark of achieving the goals. For least developed countries to meet that ambition, finance must be encouraged to flow to the last mile. Catalytic official development assistance that unlocks those flows, and de-risks the investment space to reveal new markets, will be critical to achieving that transformation. The Addis Ababa Action Agenda, Agenda 2030, and the Istanbul Programme of Action provide the moment for acceleration. With a highly relevant but under-funded business model, the UNCDF core resource environment is of great concern, given the growing shortfall against the $25 million annual target agreed in the strategic framework, a minimum to reach 40 least developed countries (translating to about $500,000 per country – good value for money, particularly when leverage is factored in). Core resources are the foundation of the UNCDF business model, providing the risk capital for innovation and leverage, the technical expertise to remain at the frontiers of last-mile finance innovation, and the robust country-level strength to be a strategic partner to governments and United Nations country teams.

8. To meet the challenges of the new development agenda, UNCDF reinforced its four-window architecture. In addition to the core (window 1), UNCDF launched its 'Last Mile Finance Trust Fund' (window 2) to act as its preferred flexible non-core vehicle for thematic and country expansion resources. Earmarked non-core funds (window 3) remain a major source of funding, including through Multi-Partner Trust Fund resources for joint programming with UNDP and other United Nations partners. And the LDC Investment Fund (window 4) will provide the capital through which UNCDF can replicate and scale up its use of grants, reimbursable grants, loans and guarantees to de-risk investments, provide seed capital, and 'prime the pump' for investor uptake.

B. Highlights of results, 2014-2015

9. This section provides highlights of UNCDF programmatic performance, 2014-2015, as well as contributions made to the three substantive outcomes by its two main practice areas – local development finance and financial inclusion. Performance is largely on track (see annex 2 for full reporting against the integrated results and resources matrix indicators).

Results against outcome 1: Financing increased for basic services and inclusive growth/local economic development

Local development finance

10. The purpose of the local development finance practice is to encourage the investment of domestic public finance and capital markets in local economies in a way that promotes sustainable and equitable growth. Since many local economies are not able to attract investment, the benefits of growth bypass many populations. As a result, finance is unavailable for catalytic, high-impact projects in essential areas such as municipal infrastructure, women's economic empowerment, food security, climate change, and clean energy. The local development finance practice designs and tests financial models to address that challenge.

11. The first two years of the strategic framework oversaw a significant, three-pronged evolution in the financial tools and instruments of the local development finance practice. First, UNCDF developed and successfully tested new tools to unlock domestic finance for local economic development through its local finance initiative (LFI). Second, the UNCDF local development Fund (LDF) model – using fiscal decentralization as its foundation – introduced a third generation of innovations, notably new performance elements used as leverage for blended finance by providing seed capital for bankable projects. Third, the local development finance practice is introducing platforms and models that diversify the sources of financing for municipalities by tapping into more sustainable sources such as loans, public-private partnerships, and bonds, and carving out innovation space for sources such as crowd-funding and remittances.

12. The local development finance practice measures its contribution to outcome-level results via the 'local fiscal space' indicator. Increasing the capacity and fiscal space of local authorities can empower secondary cities, towns, and rural areas to promote local economic development. Local

fiscal space is measured by looking at the revenues and regular transfers received by local authorities minus regular expenditures, such as staff and operational costs. This yields the surplus that can be used for local economic development and service provision, expanding fixed capital formation at the national level.

13. Since 2013, UNCDF has been able to detect increases in local fiscal space in a number of local authorities where it operates. In Cambodia, for instance, the space increased by an average of 60 per cent in the five local authorities covered by the 'Promoting Local Development through Decentralized Health Service Delivery' programme. Similarly, a 225 per cent increase was observed in a sample of local authorities that benefited from UNCDF support through the '*Programme d'appui au développement économique local*' in Niger. UNCDF contributed to those increases through its national-level advocacy work to improve and increase fiscal transfers to the local level, and through the demonstration effect of its programmes in terms of strengthening local capacities in planning and management of investments. A highlight was the decision of Japan to scale up the UNCDF-tested local 'fiscal grant facility' in Bangladesh to about $400 million. Significant effort continues to be invested in research methods to establish the link between growth in local fiscal space and UNCDF contributions.

Table 1. Progress against relevant integrated results and resources matrix indicators

Indicator	Plan 2015	Actual 2015	Performance*
Outcome 1.b. Net increase in local fiscal space available for local development in sub-national territorial jurisdictions	50%	425%	+
Output 1.2.1-a Change from baseline in value of total national budget allocated to local governments leveraged by UNCDF contribution	25%	47%	+
Output 1.2.2 Change from baseline in value of domestic capital mobilized to the local level (leveraged by UNCDF contribution)	13%	3730%	+

*Performance assessment scores: Achieved (+) = 75-100%; Partially achieved (+/-) = 50-70%; Not satisfactory (-) = < 50%

14. $24 million has been disbursed in grants to benefit 1,077 local authorities across 21 countries through the UNCDF local development finance practice, supporting local economic development in urban, peri-urban and rural communities where needs are greatest. This funding was channelled using a number of local development finance instruments which deploy seed capital and technical assistance to build bankable projects that attract domestic private funding for local infrastructure needs. While the local development fund remains a central instrument within the local development finance practice toolbox, comprising 85.4 per cent of the portfolio, the local finance initiative now represents 3.87 per cent of the portfolio (up from 0.08 per cent in 2013). To date, more than $46 million has been mobilized from domestic sources through the initiative. In Tanzania a platform was created to expand the modality nationwide. The success spurred demand for replication, notably in Benin and Uganda. Performance-based, climate-resilient grants used by the Local Climate Adaptive Living facility (known as 'LoCAL') also expanded, accounting for 10.73 per cent (up from 7.45 per cent in 2013).

15. In addition to increased financing, many local authorities benefited from technical assistance to improve local public administration and financial management. During the past two years, over 14,900 government officials and local stakeholders were trained in skills ranging from investment planning to capital investment programming, public financial management, audit, procurement, and engineering. Twenty-eight per cent of trainees were women.

Table 2. Progress against relevant integrated results and resources matrix indicators

Indicator	Plan (2015)	Actual (2015)	Performance
Output 1.2.4 Number of local Institutions that improve performance against allocation related indicators of Public Expenditure and Financial Accountability (PEFA)	20	17	+
Output 1.2.5 Number of investment projects reaching financial closure following effective investment appraisal	15	15	+
Output 1.2.7 Number and type of local investments in infrastructure and services completed	1,588	1,549	+
Output 1.2.8 Number of local investments in UNCDF-supported revenue-generating private and public-private infrastructure and services complying with financial projections	4	6	+
Output 1.2.9 Number of local institutions that improve accountability-related PEFA indicators	20	15	+
Output 1.2.11 Number of revenue-generating projects with multi-stakeholder boards	4	9	+

Financial inclusion

16. UNCDF work in financial inclusion also evolved during the first half of the strategic framework period. With financial inclusion recognized as a target in seven of the 17 sustainable development goals and as an enabler for sustainable and equitable growth, the UNCDF 'Making Access Possible' (MAP) diagnostics and stakeholder processes provide critical underpinnings with a statistically significant data set on demand for and supply of financial services, as well as legal, regulatory and other contextual factors. These data reveal potential markets and help governments define their own financial inclusion strategies and roadmaps. The data also help 'crowd in' private-sector actors to invest in financial access, and provide the basis for broad stakeholder coordination.

17. UNCDF interventions are building solid ecosystems to enable the adoption of digital financial services at scale through its 'Mobile Money for the Poor' programme. UNCDF demonstrated the viability of new markets, such as empowering youth with its YouthStart programme and expanding clean energy access through CleanStart, a demonstration of how financial services can support the dissemination of important technology to least developed countries. Similarly, UNCDF helped expand access to remote rural areas with technology and alternative delivery channels, notably through MicroLead. That programme saw significant expansion in 2015, as some of the new financial products it had assisted financial service providers to design began to scale up. Over 400,000 new customers, over 70 per cent of them women, were reached by savings products developed with MicroLead support in nine countries. The midterm evaluation findings were broadly positive; evaluators concluded that MicroLead piloting was 'relevant and effective in supporting the financial inclusion of rural low-income clients' in the 10 countries where it intervened.[1]

18. Underpinning these interventions was a strong domestic resource mobilization drive, leveraging targeted official development assistance with domestic resources and private investments, and promoting women's economic empowerment. Impact studies[2] consistently show positive economic outcomes for women with access to savings, including increasing the productivity of rural women, expanding their profits, increasing investment in their businesses, and expanding their legal control over funds. In addition, digital financial services increase women's financial autonomy, support their participation in the labour force, and improve the performance of their businesses[3].

19. UNCDF invested $24 million in 101 financial service providers during 2014-2015 to expand the frontiers of financial inclusion, resulting in outreach to 6.5 million clients with a range of financial

[1] Midterm evaluation of the MicroLead Expansion Programme, February 2016.
[2] 'Promoting Women's Economic Empowerment, What Works?' World Bank, Policy Research Paper 7087, November 2014. http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2014/11/04/000158349_20141104112018/Rendered/PDF/WPS7087.pdf
[3] 'Digital Financial Solutions to Advance Women's Economic Participation', World Bank Development Research Group, BTCA, Bill and Melinda Gates Foundation, Women's World Banking, November 2015: https://btca-prod.s3.amazonaws.com/documents/122/english_attachments/Women's_Economic_Participation_Report_16_November_2015.pdf?1447440924

products at reasonable cost, and on a sustainable basis. Clients included some 666,000 depositors in the Democratic Republic of the Congo and 528,000 in Niger. UNCDF intermediated funding for micro, small and medium sized enterprises to grow their businesses and create jobs.

20. UNCDF works with development partners to align support and programming with national priorities. Country-level investment committees review new initiatives and coordinate – and in some instances pool – country-level funding. Development partners are providing $99 million in funding for UNCDF-designed programmes over the course of the strategic framework. These non-core resources complement and leverage (23 times over) UNCDF core resource investments, contributing significantly to higher-level results.

21. Within the context of their total deposits of $1.9 billion mobilized, UNCDF-supported financial service providers have achieved a net increase in deposits of $696 million mobilized since the 2013 baseline, demonstrating the potential for well-targeted official development assistance to catalyse domestic resources for development.

Table 3. Progress against relevant integrated results and resources matrix indicators

Indicator	Plan (2015)	Actual (2015)	Performance
Output 1.1.1 Change in value of loan portfolio of FSPs leveraged by UNCDF core contribution	10:1	160:1	+
Output 1.1.2 Net change of domestic savings mobilized by UNCDF-supported FSPs	10:1	46:1	+
Output 1.1.3 Percentage of FSPs that have audited financial statements	90%	99%	+
Output 1.1.4 Percentage of FSPs making progress toward profitability targets	80%	76%	+
Output 1.1.5 Percentage of FSPs meeting portfolio quality targets	80%	62%	+
Output 1.1.6 Percentage of FSPs that endorse SMART campaign client protection principles or equivalent	87.5%	95%	+

Results against outcome 2: Financing mechanisms established to increase resilience to economic and environmental shocks

Local development finance

22. The local development finance practice increases the resilience of least developed countries in two ways: first, by promoting financing mechanisms and institutions that can provide sustainable resources for local climate resilience (for which local authorities have both the mandate and comparative advantage), thereby enhancing local ownership and transparent decision-making; and second, by targeting investments towards social and environmental areas that affect community resilience, such as adequate access to nutritious food, climate change adaptation, and gender equality.

23. Three programmes in particular contribute to this outcome: LoCAL, which helps governments channel global climate adaption finance to local governments; Finance for Food (F4F), which supports a local food systems approach to food security; and the Local Cross-Border Initiatives programme ('LoBI'), which emphasizes cross-border cooperation and investment planning in fragile settings.

24. To date, the LoCAL mechanism has been implemented in 11 countries, with grants totalling $3.5 million transferred to 10 of them. Sixty local authorities are capacitated to manage performance-based, climate-resilient grants, representing a population of some 10 million people. In Bhutan, 47 infrastructure projects were implemented under LoCAL, including the construction of fortified roads and elevated bridges and upgrades to drainage and water supply systems. Those projects directly benefited 10,693 people in participating communities and provided indirect benefits to people in surrounding districts by reducing the impact of flooding on their lives. In 2015, the LoCAL programme board (comprised of the participating governments) agreed that LoCAL should become a

recognized mechanism for local governments to directly access the Green Climate Fund. Cambodia began that process last year.

25. The Finance for Food programme was launched in June 2015 and covers five countries: Benin, Burundi, Mali, Mozambique, and Niger. It seeks to improve local community resilience to food shocks by strengthening local food systems, thus contributing to the four pillars of food security (access, availability, utilization and stability). Since its launch, 83 food security investments were made in the five countries, totalling $3,661,040. In Mali, UNCDF is supporting the government to integrate food security concerns into local planning and budgeting processes. More than $2 million has been invested in food security-related infrastructure, such as grain storage facilities and improved irrigation systems. Negotiations with multilateral development banks to scale up this system began in 2015.

26. After the first coordination meeting of the multi-stakeholder consultation group on cross-border cooperation – uniting local authorities from Burkina Faso, Mali, and Niger – in 2014, the first grant under the LoBI programme was disbursed in 2015 to support the implementation of investments in the livestock sector. LoBI fosters cooperation between local authorities from different countries, creating an interdependent system of local planning to respond jointly to the needs of their populations. These investments reduce the risk of conflict between farmers and pastoralists, and improve the offer of services needed to improve animal health and the quality of livestock products.

Table 4. Progress against relevant integrated results and resources matrix indicators

Indicator	Plan (2015)	Actual (2015)	Performance
Output 2.2.1 Number of public and private financing systems for local infrastructure and services that improve resilience of local governments and their populations to shocks	6	5	+
Output 2.2.3 Number of beneficiaries targeted by new mechanisms in place	325,000	958,801	+

Financial inclusion

27. UNCDF focused on expanding the frontiers of financial inclusion by piloting new products and market segments (youth, mobile money, and clean energy) and bringing them to scale. Targets were achieved for new product introduction, while the number of clients reached through savings products to increase resilience exceeded the overall target.

28. For YouthStart, 2015 was a pivotal year, with the completion of the regional pilot, a positive final evaluation, and approval of a global programme to scale up that integrates lessons from the pilot and evaluation. YouthStart more than tripled the pilot's original target of providing access to finance to 200,000 youth (ages 12-24), ultimately reaching over 600,000 youth (49 per cent of them young women) with access to financial and nonfinancial services. Young people in the programme saved over $16 million, and over 80,000 young entrepreneurs accessed $11 million in loans. The evaluation found that YouthStart contributed to increased resilience to economic shocks with almost 80 per cent of youth clients claiming that "their lives had changed" in terms of financial capabilities, income generated, greater independence, and increased self-esteem.

29. The CleanStart 'Energy Access Challenge', with investments in ten companies across Cambodia, Myanmar and Uganda will, by 2017, have sold high-quality, affordable clean energy solutions to over 178,000 low-income consumers. This can be particularly important for women, who provide the vast majority of unpaid care work. Clean energy solutions can reduce the time needed to fetch water, prepare food, and carry out other household activities, freeing up time to engage in productive remunerative activities and improving overall household welfare. Participating companies are taking full advantage of technological advancements in smart devices, digital payments, and data analytics, in addition to building up 'last-mile' distribution capacity. Since 2014 CleanStart has facilitated access to more than 43,570 clean technology solutions, such as solar lanterns and home systems, biogas digesters and clean cook-stoves. Among these, over 39,900 are in Nepal, a notable

achievement given the massive earthquake in 2015. There, $510,000 in CleanStart funding for four financial service providers leveraged $6.5 million in loans outstanding for over 30,000 clients.

Table 5. Progress against relevant integrated results and resources matrix indicators

Indicator	Plan (2015)	Actual (2015)	Performance
Output 2.2.1 Total number of clients served with products that strengthen client resilience to shocks	3,900,000	6,498,526	+
Output 2.2.3 Number of product innovations in areas such as youth finance, clean energy finance, agricultural/rural finance, mobile money or cash-to-electronic transitions	35	28	+

Results against outcome 3: Policy environment that is conducive to sustainable financing for sustainable development

Local development finance

30. At the global level, the local development finance practice has contributed to the financing for development agenda by advocating the crucial role of domestic capital in building resilient economies and the fundamental role of local governments in driving transformative development. The practice demonstrates through its programmes and knowledge products how local development finance can support catalytic investments and leverage domestic resources for local economic development. The practice works with a wide group of partners to implement the Addis Ababa Action Agenda and Agenda 2030. With United Cities and Local Governments and other actors, UNCDF works with the global task force for the localization of the sustainable development goals. The objective is to increase financing for local authorities and other local stakeholders to build infrastructure that supports resilient, viable, and inclusive local economies.

31. LoCAL raised awareness of the importance of local authorities in strengthening climate resilience. The programme worked closely with the least developed countries group and the United Nations Framework Convention on Climate Change at the preparatory meeting for the twenty-first session of the Conference of the Parties to ensure that the role of subnational governments was recognized in the Paris Agreement. UNCDF also joined the Cities Climate Finance Leadership Alliance, which seeks to accelerate capital flows to cities and maximize investment in climate-resilient infrastructure.

32. UNCDF supported policy changes and reforms at the national level. In Lesotho, lessons learned from the Deepening Decentralization programme contributed to the content and adoption of the national decentralization policy, a milestone in the decentralization process. The policy promotes equitable local development by strengthening decentralized provision of basic services, democratic governance, and greater fiscal autonomy of local authorities.

33. In Somalia, through the United Nations Joint Programme on Local Governance and Decentralized Service Delivery, the local development finance practice is contributing to peace and reconciliation. It is supporting state-building from the bottom up in Somaliland and Puntland by developing the capacities of local authorities to provide basic services and promote local development. Since the launch of the fund, transparency and accountability in public financial management in targeted local authorities has improved significantly. The practice is now the go-to-mechanism for several donors, including the World Bank. Trainings on public financial management have helped increase the absorption capacity of the local governments, supporting them to handle larger infrastructure projects. A total of $8.5 million has so far been channelled into local development projects through this approach, supporting roads and water supply infrastructure.

Table 6. Progress against relevant integrated results and resources matrix indicators

Indicator	Plan (2015)	Actual (2015)	Performance
Output 3.2.1 Number of local development diagnostics completed	38	31	+
Output 3.2.2 Number of national strategies or action plans for local development finance adopted	30	34	+
Output 3.2.3 Number of policy or regulatory changes as a result of UNCDF advocacy on local development finance	8	7	+
Output 3.2.4 Number of initiatives to strengthen capacities of national and local actors	188	247	+
Output 3.2.5 Number of approved UNCDF publications	45	60	+

Financial inclusion

34. UNCDF provides support to the Secretary-General's Special Advocate for Inclusive Finance for Development – the Queen of the Netherlands – through her Reference Group4 and the Group of Friends of Financial Inclusion5, and with her office directly.

35. UNCDF participated in discussions on the formulation of the sustainable development goals. Financial inclusion appears as a target under seven of the goals, and key financial inclusion indicators are among those endorsed by the Statistical Commission. UNCDF made contributions to the Addis Ababa Action Agenda, which reflects the significance of expanded financial inclusion for sustainable development. In December 2015, the General Assembly passed a resolution recognizing the importance of financial inclusion for Agenda 2030. UNCDF provided technical advice on the proposal. UNCDF co-hosted 'Responsible Finance Forum VI', which brought together various development actors to identify sound practices for responsible digital finance.

36. At the national level, UNCDF has transitioned to a market systems approach to financial inclusion. As the Consultative Group to Assist the Poor (CGAP) notes in updated guidance to funders, "the diagnostic process is the backbone of a market systems approach". In 2015, UNCDF supported 12 national-level diagnostics in areas related to the 'Making Access Possible' tools, leading to five national-level financial inclusion road maps to date. In addition, UNCDF supported 15 ecosystem diagnostics of specific issues (including digital finance and youth).

37. In 2015 the Government of Myanmar approved a 'financial inclusion road map'. The UNCDF 'Making Access Possible' diagnostic informed the government-led stakeholder dialogue that resulted in the road map, with the official launch taking place during the visit of the Special Advocate. 'Making Access Possible' supports 10 other countries in similar processes[6]. It offers a powerful platform to encourage private sector investments in expanding financial inclusion, and is becoming a strong engine for South-South cooperation, fostering peer-to-peer learning among countries.

38. The Pacific financial inclusion programme has used data collected on the demand for financial services in Fiji, Samoa and the Solomon Islands to build a comprehensive picture of underserved segments in each market, including by geography, age and sex. The economic empowerment of women is a key outcome in the financial inclusion strategies of Fiji, Papua New Guinea, Samoa, and the Solomon Islands. The studies were fed into national financial inclusion strategies, which the programme helped develop.

39. Mobile Money for the Poor (MM4P) has supported governments to make a number of improvements to the 'enabling environment'. The Bank of the Lao PDR issued guidelines for bank and non-bank digital financial services; the first such service was launched, reaching 33 agents and

[4] Members include UNCDF, the World Bank, the International Monetary Fund, the International Finance Corporation, CGAP, the Alliance for Financial Inclusion, BTCA, the Department of Economic and Social Affairs, UNDP, the Omidyar Network, and the Bill and Melinda Gates Foundation.

[5] Informal group of countries, co-chaired by Indonesia, Peru, and Tanzania, that advocates for financial inclusion in intergovernmental processes.

[6] Botswana, Cambodia the Democratic Republic of the Congo, Laos, Lesotho, Madagascar, Malawi, Myanmar, Nepal, Swaziland, and Zimbabwe.

over 1,000 customers nationwide. Nepal issued groundbreaking new licensing of non-bank payment service providers, allowing for non-bank digital financial services agents. In Uganda, the parliament approved the revision of the Financial Institutions Act, creating a more level playing field for banks and mobile network operators to compete in digital financial services.

40. The advocacy of the Better Than Cash Alliance (BTCA) has led to growing international recognition of the importance of digitizing payments. BTCA, for which UNCDF serves as secretariat, has secured the membership of 18 governments, 19 development organizations, and two companies, and advocated the inclusion of digitizing payments in major policymaking forums, including the Global Partnership for Financial Inclusion, the Addis Ababa Action Agenda, Agenda 2030, and the World Economic Forum. BTCA is contributing to the development in member countries of digital payment ecosystems that promote the sound development of payment infrastructure, driving the shift to digital and benefiting individuals, businesses, and governments.

Table 7 Progress against relevant integrated results and resources matrix indicators

Indicator	Plan (2015)	Actual (2015)	Performance
Outcome 3.a Number of improvements to the policy environment and enabling ecosystem, including client protection, resulting from UNCDF advocacy and support.	19	9	-
Output 3.1.1 Number of diagnostics completed	15	23	+
Output 3.1.2 Number of inclusive-finance road maps, action plans or national strategies adopted	12	10	+
Output 3.1.3 Number of commitments to BTCA to transition cash to electronic payments	15	42	+
Output 3.1.4 Number of capacity-building activities completed to strengthen the capacity of regulators/supervisors	15	46	+
Output 3.1.5 Number of knowledge products that document UNCDF learning from programmes	30	62	+

C. Understanding performance against the strategic framework

41. This section provides an analysis of results based in part on resources and expenditures within the integrated results and resources matrix architecture (annex 1), which has yielded a proposal to revise some indicators to better capture sex disaggregated results and reflect the evolving nature of UNCDF programmes (annex 2).

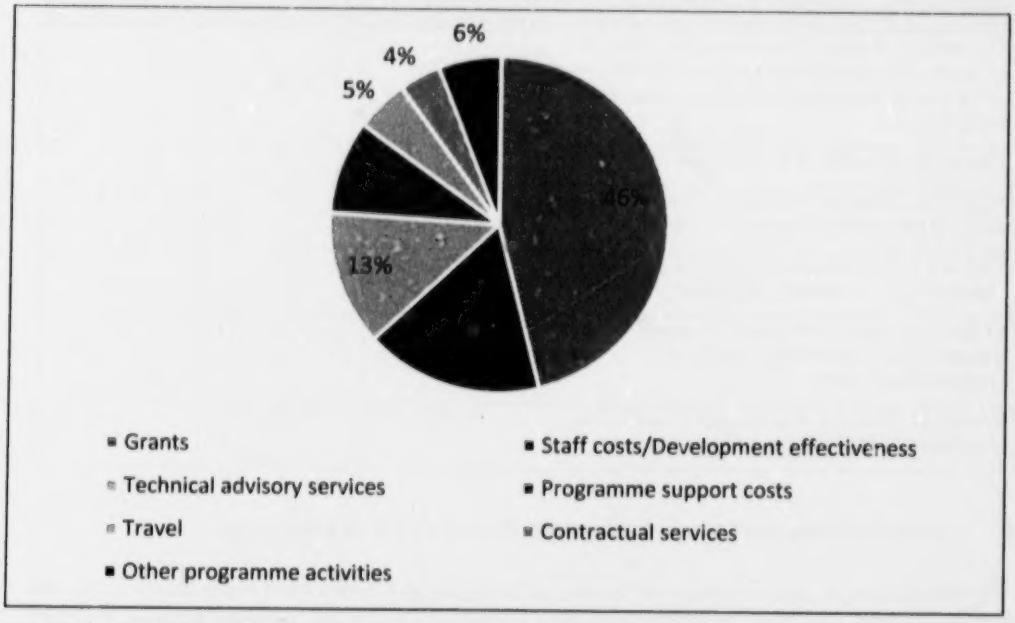
42. UNCDF operates as a small, risk-tolerant innovation fund whose programmes deploy a careful balance of technical assistance with catalytic seed capital to create viable markets and 'crowd in' other investors. This requires a multi-year approach that recognizes that investment in innovation must be sustained into consolidation (for policy and institutional impact) and scale-up (for replication and national impact). To ensure that those balances are maintained and strong results achieved, downward fluctuations in resources are absorbed by reducing the *number of countries* where UNCDF operates. Without a universal mandate in least developed countries and a predictable $25 million per year in core, UNCDF could only maintain programmes in 31 countries as of end 2015. Up to 10 of these are at risk of further reduction by end 2016 without a turn-around in the core.

43. The UNCDF core of yesterday seeded the innovations that are the flagships of today. Without a strong core, UNCDF loses critical innovation space to seed the flagships of tomorrow. An acceleration in financial innovation is now in sight with the Addis Ababa Action Agenda and Agenda 2030. UNCDF has the potential to catalyse and drive frontier finance models into the 'last mile' in least developed countries with a range of old and new partners, but only with a predictable resource base to support us. Core donors are valued for their willingness to take risk with us, participate in the

creation of new models and new learning, and test ideas that institutional investors are not yet ready to take up. The UNCDF core offers value for money, promising country start-up with a $500,000 commitment, and a minimum 1 to 10 leverage within three to five years in most country settings.

44. Core resources fund the organizational backbone of UNCDF, help ensure the highest standards of transparency and monitoring, assure retention of state-of-the art expertise, and provide seed capital to establish market viability and leverage. For the latter, UNCDF seeks to preserve a minimum 40 per cent capital component in its expenditure profile at all times. In 2015 the capital component against total programme resources stood at 46 per cent (figure 1, below). Maintaining the ratio is fragile as the core resource base shrinks, and can be maintained only by reducing the number of countries where UNCDF operates. With increased core, we can leverage the additional capital needed for market-making investments, increasing both country coverage and overall financial leverage for each of those countries while maintaining a healthy technical assistance-to-capital ratio.

Figure 1. Programme expenditure breakdown



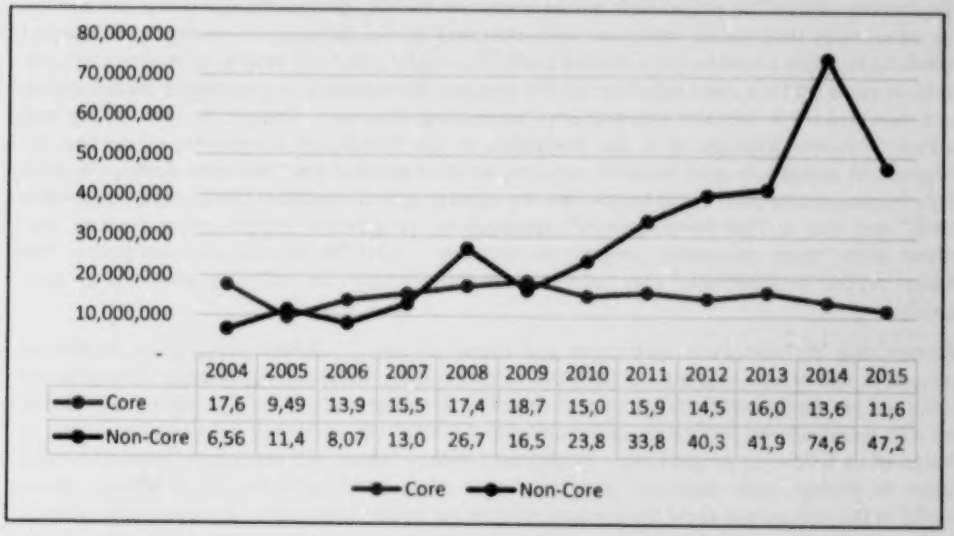
45. Core is also the bedrock of ensuring strategic engagement at the country level. The partnership survey (annex 3) and evaluation evidence highlight the need for more robust country-level presence. Regionally based technical advisors cover many countries and are not able to devote the same attention to government policy and strategy, UNDP and United Nations country team-UNDAF coordination efforts, and programme partners, that full-time in-country experts can provide. The "projectization" of the UNCDF country footprint is a negative by-product of the reduction in core resources, and a lost opportunity for maximizing the impact of last-mile finance across the United Nations system and government plans.

46. Non-core resources are generally earmarked to specific countries, programmes, or themes. Such resources help UNCDF consolidate and scale up lessons from its core-funded innovations and expand them within and into new countries. This is the largest source of annual income for UNCDF, but also the least flexible to meet new demand or drive new innovation.

47. UNCDF income figures show strong non-core resource mobilization during the strategic framework period, particularly in 2014 (figure 2, below). However, they also show the decline in core resource allocations over the course of the last 10 years, with a sharp decline from $16 million in 2013 to $11.6 million in 2015, and projections of $9 million for 2016. Core resources thus fall well

short of the $25 million annual target agreed in the strategic framework, the minimum UNCDF needs to reach 40 least developed countries.

Figure 2. UNCDF income trend, 2004-2015



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Core	17,6	9,49	13,9	15,5	17,4	18,7	15,0	15,9	14,5	16,0	13,6	11,6
Non-Core	6,56	11,4	8,07	13,0	26,7	16,5	23,8	33,8	40,3	41,9	74,6	47,2

48. In January 2016, UNCDF revised its four-window funding architecture as follows: window 1, core; window 2, the new Last-Mile Finance Trust Fund, with five thematic windows (green economy; food security and nutrition; infrastructure and services; economic empowerment of women and youth; and financial inclusion and innovation) and one country expansion window, to meet expressed demand for thematic interventions, consolidate country-level innovations into policy and institutional settings, and assure the conditions for scale-up; window 3, fully earmarked non-core; and window 4, the LDC Investment Fund.

The LDC Investment Fund will provide additional *capital* for catalytic seed funding for initiatives 'below the radar' of institutional investors. UNCDF capital in the form of grants, reimbursable grants, loans, and guarantees will de-risk investments to demonstrate value and reveal markets, crowd in other investors, and accelerate progress across its portfolio on the innovation-to-scale continuum.

49. Looking toward the remaining years of this strategic framework and beyond, UNCDF remains committed to expanding the frontiers of innovative finance in the 'last mile'. This includes exploring opportunities related to bringing adapted technologies to the 'last mile' in least developed countries; expanding the reach of micro-insurance; making it easier and cheaper to send and receive remittances; and supporting cities to meet the demands of a new urban agenda. The potential exists to adapt UNCDF finance models to these and other areas. Realizing that potential, however, requires an adequate and predictable core resource base.

Select lessons and findings at the mid-point of the strategic framework

50. Evaluation and programme reviews provide valuable lessons and recommendations that help shape UNCDF interventions. What follows are some key lessons that have been incorporated into UNCDF programming.

51. Evaluations conducted by the UNCDF evaluation unit generally find UNCDF interventions to be highly relevant to country development strategies and to the targeted organizations and individuals. For example, in Benin, the focus on support to local authorities through a 'learning by doing' approach was considered an intelligent way to support sustainable interventions in managing food security investments, while also noting that in some instances working through national systems could engender "considerable delays in the length of the investment cycle from the time money was

provided from the central level to conclusion of the work"[7]. Evaluators also highlighted some weaknesses in "strategic coherence … between the choice of the investments and the objectives of local economic development and food security at the local level"[8]. UNCDF is addressing both issues in the successor Finance for Food programme.

52. The quality of UNCDF programme management was broadly praised, though it was pointed out that in some cases programme managers were stretched by the demands of managing concurrent interventions in many countries with limited staff. This could affect the results of programmes, for example, in cases where a more intensive on-site presence by managers or programme implementing partners was needed to support organizations undergoing long-term changes to their policy and operations. This was highlighted in the evaluation of the MicroLead programme supporting the development of savings-focused financial services, which concluded that "the short duration of field missions by programme staff (each responsible for managing five countries) constrained a deep-dive approach" and that a "feet-on-the-ground" approach by programme implementing partners was correlated with "more successful programme delivery"[9]. UNCDF agrees, and recognizes that constraints related to diminished core resources severely restrict our ability to address this issue adequately.

53. Recognizing the relevance, innovation and impact of the YouthStart programme, evaluators recommended that where appropriate UNCDF consider *more holistic programming arrangements* involving not just direct beneficiaries, such as financial service providers, but also other actors in that system who could support replication and scaling up. UNCDF has addressed the recommendation in the design of its follow-up programme – YouthStart Global – which will encourage financial service providers to partner with technical and vocational educational providers or economic actors successful in the sectors that show the greatest promise for youth employment in a particular country, and budget the funding needed to achieve results. This has been incorporated into the youth country assessments completed in seven countries.

54. From its 'Making Access Possible' diagnostic work, UNCDF learned the power of data-driven approaches in developing a shared common vision while revealing market opportunities to the private sector. Competitive requests for applications and performance-based financing agreements are effective for de-risking investments, leveraging private-sector equity, driving innovation, identifying market opportunities, and pushing the frontiers of finance into underserved markets and segments. Those lessons will be reflected in the next generation of UNCDF financial inclusion programmes.

55. In some UNCDF-supported local governments, contraction of the local fiscal space was observed, which hints at the significant level of dependence of many local authorities on fiscal transfers from the central government for their operational and investment needs. This highlights the need for least developed countries to seek further resource diversification to ensure financial sustainability and some degree of autonomy in revenue mobilization. It also suggests that UNCDF should continue expanding its financial toolbox and place greater emphasis on the mobilisation of private sector resources (especially from the domestic level) to support local capital investments through diverse instruments.

56. The local finance initiative has shown the value of structured project finance. The programme set out to show that local infrastructure projects that are prioritized by local governments and communities can attract funding primarily from domestic capital if existing market failures are addressed. By directing strategically placed official development assistance to de-risk and structure priority local infrastructure projects, the programme demonstrated that finance can be leveraged at a rate of at least 1:10 in support of economically transformational investments. In so doing, the programme is contributing to a change in investor behaviour and attracting interest in funding smaller-scale projects. The Government has moved to institutionalize the local finance initiative approach in all local government authorities in Tanzania for scale-up and sustainability. With proof of concept demonstrated, UNCDF is replicating this programme in other least developed countries.

[7] Final evaluation, *Projet d'appui à la décentralisation, à la déconcentration et au développement économique local au Benin*, page 6. 2014.
[8] Ibid.
[9] Midterm evaluation, MicroLead programme, page 82, 2016

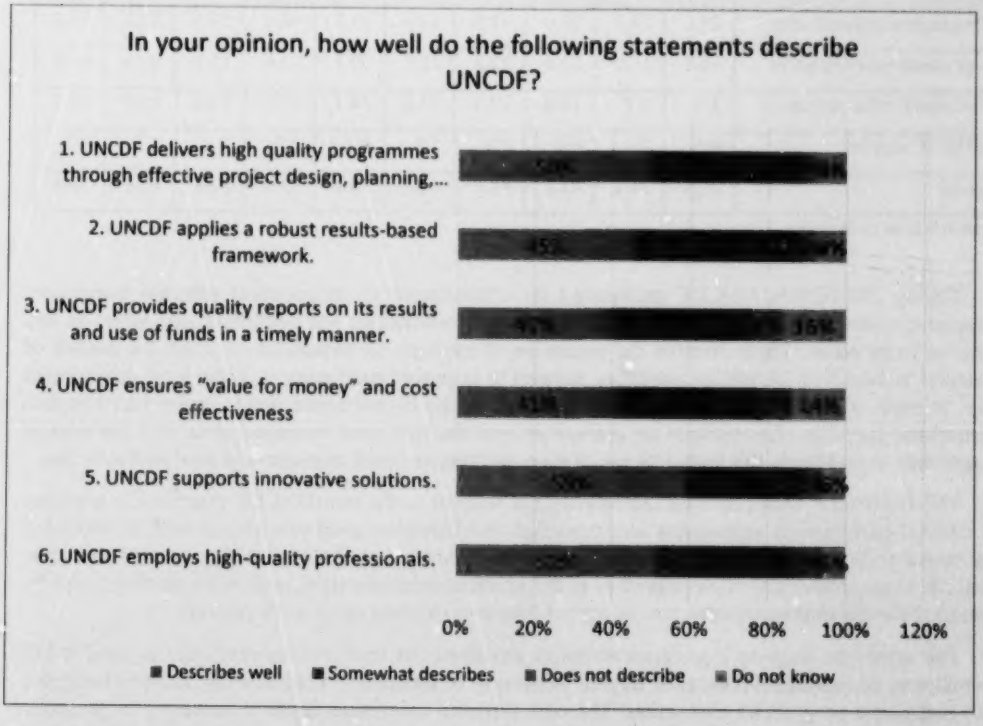
57. On the diversification of the UNCDF funding base, an internal review of the Swedish Government-funded partnership framework for flexible non-core (the 'PFIS' framework) confirmed the relevance to UNCDF and its partners of a funding approach that provided targeted but flexible support to new UNCDF financial models in thematic areas such as renewable energy, climate change adaptation, mobile financial services for the poor, and local infrastructure. It also confirmed the relevance of the arrangement to the funder, concluding that the Swedish International Development Agency had been able to "access a range of UNCDF interventions, expertise and country-level presence in a more efficient manner than support to individual programmes". UNCDF incorporated these lessons into the design of its successor funding window, the Last Mile Finance Trust Fund, which was launched in March 2016.

D. Analysis of institutional effectiveness

58. Twenty-four of 28 institutional effectiveness indicators in the internal results and resources framework are 'on track' or 'above track' (annex 2). Indicators demonstrating strong UNCDF performance include audits, evaluations, the leverage ratio of core to non-core, and communications activities. The indicators showing results lower than anticipated include System-wide Action Plan indicators and the level of core resources secured for the strategic framework.

59. The results of the external partner perception survey support a picture of good performance, with 76-89 per cent of respondents 'agreeing' or 'somewhat agreeing' that UNCDF has high project management capacity, strong monitoring and evaluation and reporting ability (though this requires work), and cost effectiveness (figure 3, below). UNCDF ranked well on its ability to support innovative solutions and employ high-quality staff.

Figure 3. Partner responses on institutional effectiveness of UNCDF


In your opinion, how well do the following statements describe UNCDF?
1. UNCDF delivers high quality programmes through effective project design, planning,...
2. UNCDF applies a robust results-based framework.
3. UNCDF provides quality reports on its results and use of funds in a timely manner.
4. UNCDF ensures "value for money" and cost effectiveness
5. UNCDF supports innovative solutions.
6. UNCDF employs high-quality professionals.
0%
20%
40%
60%
80%
100%
120%
Describes well
Somewhat describes
Does not describe
Do not know

60. UNCDF undertook an organizational realignment process during 2014-2015 to streamline its operations and structure its work more effectively and efficiently based on available resources. This

resulted in annual savings of just under 20 per cent of staff costs funded from regular resources as of 2016.

61. UNCDF rolled out a revised internal control framework and delegations of authority to reinforce effective management, governance, and risk management across the organization. To further streamline its business processes, a number of policies – such as on loans and enterprise risk management – were updated, as were the standard operating procedures.

62. UNCDF made considerable progress in implementing both internal and external audit recommendations. Implementation of all recommendations is in advanced stages, and six out of 10 internal audit recommendations, along with five out of seven (2013) and four out of nine (2014) external audit recommendations, have been fully implemented.

63. Total expenditures in 2015 were $70 million, $8.2 million higher than in 2014. Expenditures against core resources increased by $2.7 million to $11.9 million, while expenditures against other resources increased by $6.6 million, to $54.7 million. The increase in expenditure underscores the UNCDF focus on effective programme delivery against available resources.

64. Fund balances at the end of 2015 were $102 million. UNCDF has made provisions for after-service health insurance as required by International Public Sector Accounting Standards, and recalculated its operational core reserve to $12.4 million. The extrabudgetary reserve is at $2 million. Based on the recommendations of the United Nations Board of Auditors, UNCDF is working with an external firm to reassess the adequacy of its operational reserve. Appropriate adjustments will be made against the fund balances once a revised operational reserve requirement is established.

Table 8. Expenditure trends, 2006-2015

Expenditures	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Programme expenditures	25.2	28.7	37.0	41.5	43.9	53.7	48.6	54.5	57.3	66.6
- of which core resources	16.8	19.0	22.6	22.2	25.0	29.4	23.6	15.1	9.2	11.9
- of which other resources	8.4	9.7	14.4	19.3	18.2	24.4	25.0	39.4	48.1	54.7
UNCDF support	4.6	5.4	6.8	7.6	5.5	6.2	5.0	8.3	5.3	4.2
Total	**29.8**	**34.1**	**43.8**	**49.1**	**49.3**	**59.9**	**53.6**	**62.8**	**62.6**	**70.8**

(*In millions of dollars*)

65. During 2014-2015, UNCDF maintained its commitment to independent external evaluation, completing three multi-country programme and project evaluations and beginning two others in key areas of its mandate. These covered the expansion of savings; the expansion of youth-led models of financial inclusion in 10 African countries; support to improved food security at the local government level in each of Benin and Niger; and development of the microfinance sector in the Lao People's Democratic Republic. Expenditure on *evaluation* over the two years averaged close to 1 per cent of programme expenditure, not including monitoring and results-based management staff and activities.

66. The Evaluation Unit provided methodological support to the two UNCDF practices in applying an internal performance assessment tool modelled on evaluation good practice, as well as assessing the measurability of programmes and projects being submitted to the Project Appraisal Committee. UNCDF management provided responses to the recommendations from evaluation findings, and by January 2016 the implementation rate of agreed follow-up actions stood at 79 per cent.

67. The main challenge to evaluation activities remained the lack of core resources to fund a full complement of evaluation managers, as well as the cost of thematic evaluations that must be budgeted over and above programme evaluation. The core resource constraints made it necessary to postpone the planned thematic evaluation of the local development finance mechanism covering 2005-2014, and the evaluation unit continues to seek a second junior professional officer to support its work.

68. UNCDF will request that its evaluations be included systematically in the assessment of decentralized evaluations by the Independent Evaluation Office. UNCDF has requested the Office to conduct a final evaluation of its strategic framework for presentation in 2017.

69. From a baseline of meeting or exceeding 40 per cent of the 15 indicators included in the System-wide Action Plan on Gender Equality and the Empowerment of Women in 2012, UNCDF reached 53 per cent in 2015, and will accelerate progress in 2016. This midterm review has provided the opportunity to incorporate better sex-disaggregated data in the internal results and resources matrix. UNCDF has incorporated gender equality into its evaluation processes and contributed to the development of the UNEG standards. Internally, UNCDF already has mechanisms in place to ensure that gender equality is reflected in programme design, review and approval processes.

70. The percentage of women on staff increased from 27 per cent, in 2013, to 49 per cent in 2015, with an increase in P-5 or above from 28 per cent to 36 per cent over this period. Deliberate efforts are being made to attract female applicants and advance them through the recruitment process.

71. While both practice areas already had strong programming focus on women as beneficiaries and clients ('outreach targets'), they are now pursuing more multifaceted approaches addressing women as customers, consumers, and economic actors. Each practice has specific initiatives under way including the Shaping Inclusive Finance Transformations (SHIFT) programme in the Association of Southeast Asian Nations region, financial inclusion for women's economic empowerment in Africa, and the Inclusive and Equitable Local Development (IELD) initiative with UNDP and UN-Women to address structural barriers to women's economic empowerment in target countries.

III. UNCDF looking forward

72. Many millions of dollars are needed to meet the sustainable development goals. The financial requirements for least developed countries are enormous. Official development assistance can be the largest source of external finance in these countries, many of which face major constraints in mobilizing other resources for development – both private and public, foreign and domestic – and in channelling them into social and economic infrastructure and productive investments, particularly at the local level. Showing the way for investors by using official development assistance to leverage public and private resources in these least developed countries, especially at the domestic level, will play a crucial role in supporting achievement of the sustainable development goals and contributing to inclusive and sustainable growth. UNCDF finance models have proven leverage of at least 1:10, unlocking resources for poor families, small businesses, and underserved localities.

73. Looking ahead, UNCDF sees at least three opportunities. The first is to use the second half of this strategic framework to deliver on agreed results in accordance with the internal results and resources matrix, building on the lessons learned over the last two years and diversifying its financial toolkit to optimize use of grants, loans, guarantees, and new funding modalities. The second is to expand its models to 40 least developed countries in support of their achievement of the sustainable development goals and their graduation ambitions. The third is to continue evolving so that UNCDF adapts its models to new frontiers of finance, and in response to emerging challenges relating, inter alia, to youth finance, to reinforce ties to community and local economies; expanding digital financial space and micro-insurance; using financial intermediation to unlock access to adapted technologies for poor customers; helping to mobilize new forms of finance for the new urban agenda; and applying new financial solutions to address infrastructure and climate vulnerability problems in rural and peri-urban areas.

74. Essential to seizing these opportunities is that partners fully fund UNCDF core resource requirements. Well capitalized, the UNCDF funding architecture will enable it to be present in 40 least developed countries, helping them unlock ever greater amounts of public and private resources at the local level to support their achievement of the sustainable development goals and graduate with higher levels of equality and sustainability.